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Central Intelligence Agency

Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

07 JUN 1985

MEMORANDUM FOR: See Distribution List

FROM : [REDACTED]
Chief, Economics Division, OGI

SUBJECT : New GATT Round: Indian Position

Attached is a typescript recently produced by the Economics Division. It examines Indian positions on participation in the proposed new round of multilateral trade negotiations under GATT. If you have any questions or comments, please contact [REDACTED]

[REDACTED] of our International Trade Branch at [REDACTED]

Attachment:

New GATT Round: Indian Position [REDACTED]
GI M 85-10147C, June 1985 [REDACTED]

Copy [REDACTED] of [REDACTED]

(SERIES B) 1 of 6

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SUBJECT: New GATT Round: Indian Position

OGI/ECD/T [] (6 June 1985)

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MEMORANDUM

New GATT Round: Indian Position

This typescript analyzes the evolution of Indian policy on a new GATT round. [REDACTED]

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[REDACTED] Annex II provides background on Indian economic policy themes. [REDACTED]

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Motivations and Policy

We believe Indian opposition to a new GATT round is primarily a defense of India's own trade controls and reflects India's belief that multilateral negotiating frameworks such as GATT are biased against developing countries. In particular:

New Delhi reacts negatively to the possibility of negotiations that might open up the Indian domestic market to Western suppliers of services, such as banking and insurance. India argues that GATT has no authority to negotiate on services. The Indian position on services has not changed since 1982.

India is opposed the concept of graduation, advocated by the industrial countries. Under graduation, as a developing country becomes better able to compete internationally, it would, step-by-step, "graduate" to the rights and obligations of industrial countries under GATT. [REDACTED]

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India has relatively little to gain from a GATT round. According to diplomatic reports, there is much interest in export promotion, but because of the high cost and low quality of Indian exports, there are probably few overseas markets, except perhaps in textiles or steel, that are now worth the effort to New Delhi to try to open during a multilateral trade round.

Finally, New Delhi probably fears that once a GATT round is launched, India would be forced into a minor role that would not comport with India's status as a leader of the G-77 and Nonaligned Movement. [REDACTED]

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Although Indian officials, in concert with Brazil and other developing country members of GATT have opposed the US initiative for a new round of GATT multilateral trade negotiations since 1983, Indian policy has shifted somewhat.

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[REDACTED]

Few, if any, Indian policy changes appear to be responses to domestic pressures. In endorsing a Brazilian initiative for a North-South round -- an effort to derail the US proposal for a new GATT round -- we believe India responded to Brazilian pressure.

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[redacted] Tactical moves this year have also been reactive.

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The position developed in 1984 -- that LDC participation would be forthcoming only if industrial countries fulfilled a long list of unrealistic demands -- is being undermined by:

- * Defections from LDC ranks. South Korea and ASEAN endorsed a GATT round. Some of the smaller South American countries feel they have expended too much political capital resisting a new round and have more to gain by participating than by being left out.
- * The increased Western consensus on a new round. This consensus dates from the 19 March EC endorsement of a new round, and it was echoed at the OECD Ministerial and at the Bonn Summit. We believe French intransigence on timing of the start of a new round detracted relatively little from the impact that the new industrial country consensus has had on LDCs.

India and the developing countries also continue to be concerned about: (1) the US threat to negotiate regional or bilateral trade agreements if there is no new GATT round, and (2) the strength of protectionist sentiment in the US Congress. [redacted]

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[redacted] We believe India will probably

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suggest uniting behind narrower policies on a new round's preparatory phase and on what features LDCs do and do not want in a new GATT round. [redacted]

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Outlook

Indian Prime Minister Rajiv Gandhi's interest in improving Indian competitiveness has resulted in limited, but significant, economic liberalization (see Annex II). Whether these liberal tendencies will affect Indian policy in GATT is unclear. So far, Gandhi and his close advisors have paid little attention to international economic affairs, concentrating instead on domestic problems. Nevertheless, new personalities and ideas in New Delhi increase the possibility that India could alter its stance on a new round as well as its general posture in GATT. Below are alternative scenarios on future Indian policy:

Scenario A

Opposition to US goals in GATT continues under the same marching orders that Indian Geneva representatives have been following. There is gradual retreat from one stalling position to another -- from debating how preparations for a round should be organized, to questions of negotiating procedures, structure, and agenda. When the GATT round is finally underway, India is not active.

In this scenario, even though high officials are sympathetic to moderate market liberalizations, their involvement in domestic issues and the low priority assigned by them to GATT affairs relegates Indian policy decisions on the new round to lower functionaries who adhere to doctrinaire policies that encourage North-South confrontation.

Scenario B

Discussions between industrial and developing countries over content and procedures of a new GATT round convince New Delhi that it at least has nothing to lose by participating. Developing country participation is conditioned on relatively modest industrial country concessions that allow India and other developing countries to save face while shelving their 1984 position papers. Negotiations result in small reductions in Indian import protection, but also lead to increased Indian support for GATT. India still resists any form of graduation and rejects negotiations on services.

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In this scenario, ministers and advisers responsible for the 1985 liberalizations direct their attention to international trade policy. They view the GATT as a useful tool in deterring bilateralism in world trade, and intervene to pull the bureaucracy and diplomatic corps away from their current hostility to GATT. [REDACTED]

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We believe the most likely future course lies somewhere between these two scenarios, and probably closer to Scenario A -- including, over the next several months, trying to unite the developing countries behind narrower policies on procedures for new round preparations and features that LDCs want to exclude from a new GATT round. However, the Prime Minister's key economic advisors, who favor looser controls over the domestic economy, could change India's past policies on international trade issues, and thereby move events toward Scenario B.

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Annex IIEconomic Policy Themes -- Technology and Productivity

Prime Minister Rajiv Gandhi's interest in technology and productivity has revived moves to ease government restrictions on private production and investment. His liberalization moves, although limited, are very significant by Indian standards. Gandhi still intends the government to retain control of the economy, but believes that less bureaucratic meddling and more competition in the private sector will spur modernization, limit corruption, and ease strains on the government budget. [REDACTED]

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Gandhi inherited policies that protect most Indian businessmen from foreign and domestic competition. Since becoming Prime Minister, he has:

- * Permitted manufacturers in several industries to establish or expand capacity and vary their product mix without seeking government permission.
- * Relaxed anti-monopoly legislation.
- * Lowered personal and corporate tax rates.
- * Encouraged import of high technology.
- * Pushed the bureaucracy to expedite decisions that affect business.

The electronics industry is a major beneficiary of these concessions, which reflect Gandhi's personal interest in computers and his conviction that India must not be left behind in the revolution in microelectronics. [REDACTED]

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[REDACTED]

The new economic approach is a pragmatic effort to improve sluggish growth rates and increase returns to past investment in Indian industry -- not an ideological shift. The basic structure of controls remains. Gandhi continues to stress self-reliance even while he highlights India's need for foreign help with high technology. [REDACTED]

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Gandhi's initial moves have fueled an unprecedented atmosphere of optimism among corporate leaders, who are now actively planning new investments and seeking increased cooperation with US and other Western firms. They hope to build on an economy that has been buoyant recently as a result of increased foodgrain and crude oil production and financial support from the International Monetary Fund. [REDACTED]

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Economic policy is still evolving and Gandhi's resolve to create a more competitive environment is yet to be tested. Protests from businessmen who must adjust to reduced protection are just beginning to mount and criticism that Gandhi is slighting the poor in favoring India's middle class is emerging as a significant political issue. [REDACTED]

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Gandhi's policy reforms do not assure faster overall growth. His decontrol moves directly affect only a small share of the Indian economy. Even if liberalization is extended substantially, the potential benefits can be realized only if the chronic problem of electricity shortages becomes less severe and if agricultural output increases sufficiently to sustain domestic demand for manufactured goods. Perhaps most important, forthcoming balance-of-payments

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strains may block India's ability to import goods needed to modernize and increase production. [REDACTED]

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It is difficult to estimate the effect of the 1985 import-export policy, as most of India's protectionist system remains in place. Gandhi, however, is interested in foreign goods and services that can make Indian industry more competitive internationally. His statements clearly indicate that this means imports of sophisticated technology and high technology goods. For these items, import barriers are no problem. For other goods, Indian trade rules can still be very restrictive. [REDACTED]

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Foreign businesses seem encouraged by import policy reforms, but retain some skepticism. An Asian Wall Street Journal report on a workshop on foreign investment in India, attended by Indian and foreign business leaders and government officials, provided typical business and government comments:

Some participants said few Indian officials appeared ready to completely overturn the country's protectionist policy. "They said that if we're not careful, they will initiate protectionist measures," said a participant. "And we said: 'What do you call a 250 percent import duty?'"

[Prime Minister Rajiv] Gandhi sounded the government's tone in the opening address, "We would like foreign business to help us build a new dynamic and self-reliant economy," he said. But he added: "At this stage, it isn't feasible to open up industries to free competition." [REDACTED]

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